

GAS HEARING BEGUN BEFORE DISTRICT COMMITTEE OF THE HOUSE

Dr. Alexander Humphrey, President of Stevens' Institute, Testifies as Manufacturer and Expert.

Cost of Production, Price to Consumer, and Question of Capitalization Covered in Examination Conducted by Attorney Goldsborough.

GAS COMPANY HEARING ON THE COUDREY BILL.

Committee on District of Columbia, House of Representatives, April 4, 1910.

The Chairman—The committee will come to order, and, as I understand it, Mr. Hazelton will address the committee first.

Mr. Goldsborough—I want to say, if the committee please, that we have some testimony that we would like to introduce, and perhaps it would be advantageous all around if the testimony should be concluded before Mr. Hazelton opens his argument. And I would like to say, further, to the committee that this course is for us a vitally important proposition, involving, as it does, as I understand it, the constitutional rights of the company. When we get through with the testimony, I shall probably ask the committee to indulge me in an argument for the company, to be made at a subsequent day, so that I may have an opportunity to fully present our side of the case to the committee.

Mr. Pearre—It seems to me that the suggestion of Mr. Goldsborough is a reasonable one, and that the testimony should be concluded before the argument is made.

Mr. Goldsborough—I would like to say, if the committee please, on behalf of the company, that I think that this resolution goes to the whole root of the controversy that has been blooming here for quite a number of years, and which blooms perpetually, like the flowers in the spring, in reference to the general character of the Gas Company and its general attitude toward the public as a faithful public servant. If the company is doing its duty fairly, he shall endeavor to show that it has done, and is doing, of course there is no reason to penalize it. This is an indictment practically—it is more than an indictment; it is a judgment against the company, in effect, in a case in which it is charged with no offense.

The Chairman—Who is it that desires to be heard upon this?

STATEMENT OF MR. COTTER T. BRIDE, President of the Gas Company.

of Washington, D. C.

The Chairman—Please give your name and your business.

Mr. Bride—My name is Cotter T. Bride, and I am in the real estate business now. I own a house on Pennsylvania avenue which was occupied by a man by the name of Sam Swain. He sold out, and notified the gas company that he had sold out. But they sent the bills to Sam Swain only, but he had moved. They found out that they could not get the money from the man himself, so then they sent the bill to me, and would not turn on the gas until the bill was paid. I went to the court with it, but they beat me. The bill was for \$37.50. They would not turn on the gas.

Mr. Pearre—You say you went to court. What court did you go to?

Mr. Bride—The Municipal Court.

Mr. Pearre—What was the decision of the court?

Mr. Bride—The decision was against me, but the judge told me: "You carry it up to the other court, and it will be all right; and with a jury you will win." He decided for the gas company, however. You cannot get ahead of the gas company, and what is the use of trying?

Mr. Cary—Now, Mr. Chairman, I would like to have the clerk of the committee read these letters to the committee. I have four letters here that I would like to have put in the record, two of them being in answer to letters of mine. The Senators claim that we are now having an investigation, and they say: "Why have another?"

The Chairman—The clerk will read the letters.

The clerk read Mr. Cary's letters and the following replies to them:

April 2, 1910.

Hon. William J. Cary, House of Representatives, Washington, D. C.

My Dear Sir: I am in receipt of your letter of the 1st instant, in which you state that Chairman Smith of the Committee on the District of Columbia has appointed you chairman of a subcommittee to investigate the Gas Company here in Washington, and in reply you are advised that according to my information the Chairman of the Committee on the District of Columbia is not authorized to take up the joint investigation without direct authority from the Senate, and I am not aware that such authority has been granted. I observe from the public prints that the Gas Company is now being investigated by your committee, and I hardly think the Senate would feel justified in intruding upon that committee or in attempting to duplicate its work. Very truly yours,

(Signed) THOS. H. CARTER.

April 1, 1910.

Hon. William J. Cary, M. C., House of Representatives.

My Dear Mr. Cary: I am in receipt of your favor of yesterday, in which you say that Chairman Smith, of the House Committee on the District of Columbia, has appointed you chairman of a subcommittee to sit with the Senate subcommittee to investigate the Gas Company in Washington, and you ask me to tell you what arrangements have been made for the proposed investigation. In reply I beg to say that I have been laboring under the impression heretofore that the Senate could manage such matters on its own account, and I have also thought that the House of Representatives was equally competent to manage its affairs. I was misled in a recent discussion in the House committee you suggested that nothing but dynamite would start the Senate committee in the matter of an investigation of the gas company, and I now wonder whether or not you and your subcommittee are to supply the dynamite, or if we should conclude to act jointly. I beg further to add that the Senate has not as yet directed an investigation. If that action shall be taken it will be per-

formed by the Senate committee without any assistance.

Permit me, very respectfully yours, Mr. J. H. GALLINGER, Chairman.

Mr. Cary—Now you see how near we are to an investigation in the Senate.

Mr. Rothermel—I wish to ask you a question, Mr. Cary. You wrote the letter on your own responsibility, and without having called a meeting of the subcommittee, did you not?

Mr. Cary—I intended to call the subcommittee together, but in the meantime Mr. Smith had tried to make some kind of an arrangement previously, but he could get no satisfaction, so I thought I would write a letter to see what satisfaction I could get, and this is what I got.

STATEMENT OF MR. ALEXANDER C. HUMPHREYS,

President of the Stevens Institute of Technology.

The Chairman—Mr. Humphreys, please state your name and your business.

Mr. Humphreys—Alexander C. Humphreys, president of the Stevens Institute of Technology, and in the gas business.

Mr. Pearre—You are a gas expert, is that it?

Mr. Humphreys—I am an operating gas manager; president of the Buffalo Gas Company. I have been in charge of not less than fifty gas companies during my life.

Mr. Coudrey—Are you a resident of Washington?

Mr. Humphreys—No; I am a resident of New York, or Morristown, N. J., which ever you like.

Mr. Pearre—And you came here to testify for the Gas Company?

Mr. Humphreys—Yes, sir.

Mr. Coudrey—At whose request?

Mr. Humphreys—At the request of the gas company.

Mr. Cary—Were you not here a year or two ago?

Mr. Humphreys—I was here about two years ago, Mr. Cary, and I remember meeting you at that time.

Mr. Cary—You came at that time at the suggestion of the gas company also, did you not?

Mr. Humphreys—Yes, sir.

Now, Mr. Chairman, if I may go ahead in my own way, I would like to do so, but if the committee desires—

The Chairman—Yes, if you would prefer, you may proceed uninterrupted to make your statement, or the committee might desire to ask you some questions as you proceed.

Mr. Humphreys—It does not make any difference to me, but I think perhaps that my remarks would be a little more intelligible if I proceeded for a while uninterrupted.

The Chairman—Very well, and I think that would be more satisfactory to the committee. Suppose you proceed for fifteen or twenty minutes, and then if any one desires to ask you questions, they will do so.

Mr. Humphreys—First of all, I would like to refer, as it is very likely fresh in your minds, to the testimony that was offered by the gentleman this morning in regard to the quality of gas. The gentleman who testified said that there was too much oil in the gas. That may be true, and it may not be true. If it is true, then it means that they are making too rich gas, or that a certain amount of gas went through at that time which was unduly enriched; that is, with too high candle-power. But the chances are that that was not true, but that it was simply a matter of a rich gas being burned in a draft, or something of that kind, so that the combustion was not complete. I believe that was indicated by the witness. I also understood him to say that oil is not always used to enrich the gas. I do not know just what was meant there. If he means that there are other enrichments than oil, of course that is true. For many years our coal gas was enriched with canal coal and other bituminous minerals to a very high candle-power, but the present tendency is to enrich even coal gas with oil, but oil is most generally used, however, to a great extent, in the enrichment of what is called water gas. Water gas can be run at a much higher illuminating value, or candle-power, than coal gas; in other words, without undue smoke you could use a 22 or 23 candle-power gas where a coal gas of 18 or 19 candle-power would give about the same trouble with smoke. In all cases you will get smoke if the combustion is not complete; that is, with any gas of fairly high candle-power. Where you get a perfectly clear flame without smoke, that means, under almost all conditions, that it is a very rich, heavy gas. The gas that the witness referred to as having made 1,800 feet of it at a price of 49 cents was, I presume, what is known, no doubt, as rich oil gas, and that amount—49 cents—was, I suppose, the manufacturing cost. That would be gas distilled direct from the oil, without anything else, and very much the same character of gas as the Pintch gas that has been used for many years in lighting cars, so as to get the greatest amount of illumination without the smallest compass, but in that way giving themselves additional problems in the way of getting rid of troubles due to improper combustion, because it is extremely difficult to burn those rich gases without smoke. I can speak upon that particular subject, because I am familiar with it, as I was for three and a half years the chief engineer of the Pintch company, and the first American engineer in charge of that company's business in this country.

Mr. Goldsborough—You spoke of 49 cents being the cost of the retort manufacture. You meant to say that it did not include the cost of distribution or fixed charges?

Mr. Humphreys—Yes, the manufacturer's cost, without anything else.

Of course, we should consider that a prohibitive cost for gas without any other charges.

Now, gentlemen, I have a few notes that I made the other day at the hearing

here which I would like to refer to, if you care to have me do so. First, if I may be permitted, I would like to refer to the complaint that was made here the other day as to a bill of \$2.39. Of course, I don't know whether the committee cares to hear anything upon that or not. The practice throughout the United States with regard to deposits is to take a deposit where the company has no means or knowing the standing of the applicant, just as when you go into a dry goods store to buy on credit, you have to establish your credit before you will be allowed to open an account. So \$2.39 is deposited, and if the bill of \$2.39 should not be paid, then the method of procedure would practically amount to the deducting of the \$2.39 from the deposit to cover the bill, and then immediately asking the customer to put up \$2.79 in order to complete the deposit again. In other words, it is intended, under such circumstances, that the deposit shall stay always ahead of the bill. This amounts to the same thing as happened in the case complained of, when the company demanded that the bill be paid and the deposit left intact.

Another witness referred to the fact that it would not be necessary to have the money from additional capital to make extensions either of the mains or of the works, because the company already had a large surplus from which to pay for such extensions. I don't know whether it is necessary before this committee to refer to such a subject as that or not. Of course the company has a large surplus, and it is represented by this fact, that the capitalization does not represent and is not equal to the amount invested, consequently there must be a surplus; but that surplus is invested in plant almost entirely, and the balance of the surplus is used as working capital. Possibly there may be a moderate amount there that is in excess of the actual requirements, and the actual amount to be reserved for working capital is a matter of business judgment, but the surplus in the main is, of course, the surplus that is now invested in plant.

Now, you cannot very well pay for the extension of a main on Twenty-first street by using the money already invested in a main on Twenty-second street, so that this rather loose talk about using the surplus which is already invested in plant is not very helpful in meeting a business proposition.

Mr. Coudrey—If it will not interrupt you, I would like to ask a question. For instance, we are investigating and trying to find out whether the gas company are charging too much for their gas. Do you know anything about the capitalization and surplus, and so forth, of the gas company here?

Mr. Humphreys—Yes, sir.

Mr. Coudrey—What was their original capital?

Mr. Humphreys—Well, I could not tell you that, because that goes back into ancient history, although I could tell you from papers that I have; from my books.

Mr. Coudrey—Are you a gas expert, and have you handled, in any way, their financial affairs?

Mr. Humphreys—Of the gas company, do you mean?

Mr. Coudrey—Yes.

Mr. Humphreys—I have handled every branch of the gas business, sir.

Mr. Hazelton—But he means of this company.

Mr. Coudrey—I am only speaking of this company in Washington.

Mr. Humphreys—In my investigations for them in past years, and in my investigations for people outside of Washington, I have investigated all branches of their business, and am qualified to do so; and I have had charge of all branches of the business.

Mr. Coudrey—It is not a question of qualification, but what I want to get at is this: This resolution calls for an investigation of the gas company here, and what we want to know is whether, in your opinion, you can say yes or no as to whether the gas company here is overcapitalized or not.

Mr. Humphreys—At the present time?

Mr. Coudrey—Yes, sir.

Mr. Humphreys—It is decidedly undercapitalized, and there is not the slightest question about it.

Mr. Coudrey—How about their profits?

Mr. Humphreys—They are not extravagant by any means; and, furthermore, their statement underestimates their expenses; in other words, their profits are overstated, in my opinion.

Mr. Coudrey—Do you mean that their statement does not give a true statement of their expenses?

Mr. Humphreys—True, so far as they believe, but, of course, I differ with them as to certain additional items which go into expenses.

Mr. Coudrey—What per cent did they make on their capital last year?

Mr. Humphreys—I will have to figure that out, if you will pardon me for a moment. According to their statement?

Mr. Coudrey—Yes; I want to see whether you agree with them on the figures or not.

Mr. Goldsborough—Also, doctor, if you have the references convenient there, will you please give the value of the property?

Mr. Coudrey—Have you the printed statement there that they have issued?

Mr. Humphreys—Yes.

Mr. Hazelton—It is the report that they are bound to make by law.

Mr. Pearre—It has to be made under oath.

Mr. Goldsborough—There is no question about the accuracy of the figures.

Mr. Coudrey—Is there any way by which we can get the original capital of the gas company?

Mr. Goldsborough—I can tell you that it was originally \$50,000.

Mr. Coudrey—How much more money have you put in?

Mr. Goldsborough—It would be hard to make a statement of just the amount, but the fact is undoubtedly true that a very large part of the capital that has gone into betterments was derived from profits.

Mr. Coudrey—For instance, in addition to this \$50,000 do you know how much more actual money has gone into the plant?

Mr. Goldsborough—I know that \$50,000 went into it about four or five years after the company was first started.

Mr. Coudrey—Well, that is \$50,000. How much more?

Mr. Goldsborough—I could not tell you accurately how much more, but as the representative of the company I have no hesitancy in saying that a large part of the capitalization was derived from earnings that the company has been per-

mitted to make by law, under statutory regulation.

Mr. Humphreys—The capitalization as stated here is \$2,000,000, paid up, with dividends and certificates of indebtedness of \$3,500,000, and improvement bonds of \$500,000, or practically \$6,000,000. So we can state that the capitalization is \$6,000,000. The net earnings were \$647,000. I should prefer to introduce a correction there, and reduce the earnings quite a little, because I do not think that the amount which is put in for the accruing liability, on account of depreciation, is large enough. But, even taking it from their statement, they earn on this capitalization about 11 per cent, almost exactly that.

Mr. Coudrey—How much of that capitalization is, you might say, water?

Mr. Humphreys—None at all, sir.

Mr. Coudrey—None at all?

Mr. Humphreys—Absolutely none.

Mr. Coudrey—Suppose you make money, then you increase your capital, as I understand it, but the water—

Mr. Humphreys—You will have to define just what "water" is. Water, to my mind, is capitalization which is not represented by actual value, and especially not represented by physical property.

Now, all of this capitalization is far more than represented by actual plant, by my firm's appraisal, so, instead of there being water, this capitalization is more than represented by actual live assets.

There is no water, but there is a surplus, and that is where this surplus comes in to which these men have referred, and in which has been already invested in plant.

Mr. Coudrey—Do you know how much actual money has been put into the Washington Gaslight Company? I do not mean out of the money earned, but other moneys?

Mr. Humphreys—That I don't know.

Mr. Coudrey—Of course, they earn money every year, but if they are earning abnormal profit then we ought to know it that is all.

Mr. Humphreys—Of course, upon that you would have to make an investigation for every year. Now, as to these abnormal profits, as to whether there is any, to my mind there is none unless you can find some extreme case of great surplus earnings due to excessive prices. I have in the past looked over the prices for the Washington gas as compared with that of other cities, and, of course, have been familiar in a general way with the Washington affairs as to the gas business for the last thirty years. Washington has never had a reputation for charging a high price for gas. If a company should decide that it will not give out all its earnings in dividends, but satisfy its stockholders by a conservative dividend, and place the balance in plant, that would be what we Americans, in the past certainly, have considered good management, and that is why Americans to a great extent have been prosperous, and that is what has built up the industries of the country. They have not been improvident and paid out all of the money earned, but have taken some of the earnings and have placed them back in the plant and business, and so in that way their surplus earnings have been employed by this company. Under the present direction of affairs, especially by governmental bodies, it is doubtful whether that is a good policy, because it raises a question as to whether the owners of the property are entitled to what they own. I am not a lawyer, but I venture to believe that if you go back into the past to determine whether earnings were excessive earnings or not, that those earnings having been earned and placed them back in the plant and put them not into their pockets, but into the plant, that they own them just as much as if they had paid out cash.

Mr. Pearre—You consider those things in order that they may be a guide to you in the future; that is, you consider those things in mapping out a policy for the future?

Mr. Humphreys—Yes, sir; and that is just what I am coming to. My point is this, that in an investigation like this, and I have been in a good many of them, in as far as the stockholders are concerned, Mr. Rothermel—in this connection let me ask you are you interested personally in a gas company elsewhere?

Mr. Humphreys—Yes, sir.

Mr. Rothermel—Or here?

Mr. Humphreys—I am president of the Buffalo Gas Company.

Mr. Rothermel—Are you interested in other places?

Mr. Humphreys—I don't think that I have got any interest other than a small stock interest in one other company—I don't think at present I have any other interest. I don't think of it.

Mr. Coudrey—And you would not consider that you are a prejudiced juror?

Mr. Humphreys—No, sir, I am not, and my friends and my clients would not think so, either.

Mr. Coudrey—I would not think that your friends or your clients would think so, but I am talking about the public.

Mr. Humphreys—With those who know me I do not think that I am considered a prejudiced witness. What I mean about my clients is this: Nobody knows better than my clients that my testimony cannot be controlled.

Mr. Wiley—I would like to mention an analogous case for Mr. Coudrey's benefit. If Mr. Coudrey were examining an engineer of a corporation in reference to something in connection with another corporation, the fact that he was an engineer of a corporation would not necessarily bias his testimony in regard to the corporation in which he had no interest whatever, would it?

Mr. Rothermel—But if the witness is personally interested in both characters of business, it seems to me—

Mr. Pearre—It would show his line of thought.

Mr. Humphreys—Certainly; and I must be able to stand a cross-examination upon that, of course.

Mr. Pearre—And not reflecting upon the credibility of the witness, but simply upon the value and weight to be attached to his testimony.

Mr. Humphreys—But isn't it true that the court in that case would try to find out about the credibility of the witness during the cross-examination; to see if he could make good?

Mr. Pearre—Of course; and the court would assume that the witnesses are honest.

Mr. Cary—But you are president of a gas company?

Mr. Humphreys—Yes, sir.

Mr. Cary—As president of that gas company, supposing your company should accumulate an amount of \$3,000,000, which would be a very large sum, and you would get rid of it; how would you divide it up?

Mr. Humphreys—Well, I could not tell you, because I have never had such a

case as that, and I never expect to have one.

Mr. Cary—Do you know whether or not the Washington Gaslight Company has any connection with the Roslyn Gas Company?

Mr. Humphreys—I am not aware of that; I don't know anything about it.

Mr. Goldsborough—I can answer that question. It has not. It could not possibly have, in any way.

Mr. Humphreys—Continuing my answer, take, for instance, the company in which I was chief engineer and general superintendent for many years—the United Gas Improvement Company, of Philadelphia—owning probably fifty different works in different parts of the United States. My recollection is that when I started with that company in 1885 they had a capital of \$1,000,000 in bonds and \$1,000,000 in stocks. To-day they have, I think, \$50,000,000 of capital, and not a dollar of it is water. That \$50,000,000 has been furnished in part by direct contributions from stockholders, and by issuing new stock, and in part by capitalizing their earnings. For a year or two they did not pay dividends; then they paid 4, then 6 per cent, and finally they paid 8 per cent, and for years they have been paying that amount—8 per cent.

Mr. Pearre—What company did you say that was?

Mr. Humphreys—The United Gas Improvement Company, of Philadelphia, with works at Kansas City, Omaha, Des Moines, and many other places. Their policy was, the managers being prudent men, not to distribute all their earnings in dividends, which meant that as the years went on they accumulated a surplus; but some of the surplus has since been represented by an issue of stock.

Just under what legal form that is issued I am not for the moment prepared to say. But I know that some stock has been issued for surplus earnings which were invested in plant. There has never been any opportunity to distribute those earnings in cash, because they needed that surplus and more to take care of the extension of the plant, and that is the same with other companies in which I have been interested. It is the same in our company in Buffalo, where we compete with 30-cent natural gas. We use our very small surplus in making improvements.

Mr. Pearre—How much do you receive in Buffalo for your gas per 1,000?

Mr. Humphreys—One dollar; that is, we furnish \$1 illuminating gas in competition with 30-cent natural gas.

Mr. Aiken—Can you tell us what the average price for gas is all over the United States?

Mr. Humphreys—I am averaging that up I don't know what it would come to, but I can give you the prices in the different cities. The true average could only be found by taking the product of the amount sold at each separate price and dividing the totals of all of those products by the total amount sold by all the companies.

Mr. Aiken—Take the large cities, such as Chicago, Boston, Cleveland, New York, and so forth.

Mr. Humphreys—New York City is selling gas for 80 cents per thousand; and under the ruling of the United States Supreme Court, not final, as you know, it is making on that, on the actual amount invested in the gas and of its business, about 4 per cent. And I would like to say upon a statement lately issued by the public service commission of New York No. 1, to the effect that they are earning much more, that their statement is absolutely incorrect, and I can prove it.

Mr. Pearre—They claim to earn how much?

Mr. Humphreys—About 4 per cent on the actual investment in the gas business.

Mr. Cary—Mr. Humphreys, do you remember that the last time you appeared before this committee I made the assertion that the city of Milwaukee furnish gas at a price of from 60 to 80 cents to the consumers?

Mr. Humphreys—I remember that we had some little talk about it.

Mr. Cary—And Milwaukee is a city a little larger than Washington, which hauls its coal from Buffalo, about 1,000 miles or more, upon the lakes, while Washington, I do not think, has to carry its coal that far. Yet we are able to sell gas in Milwaukee at a price of 60 to 80 cents a thousand, according to the amount used, after hauling the coal that great distance. And they also return to you the cost of a meter if you come up to the amount expected to be used by one family. I had a return the other day of \$1.20. And, besides that, every six months they give each and every man who works for them 10 per cent of the wages that they earn as a present, and other presents at Christmas time.

Mr. Goldsborough—Don't they use coke oven gas there?

Mr. Cary—Lately the Semet-Solvet Coke Company has made a connection with the Milwaukee Gas Company.

Mr. Goldsborough—And hasn't that been done for several years?

Mr. Cary—Yes, three or four years, but this price has been maintained for a great many years; ten years, anyhow.

Mr. Humphreys—The present price has been maintained ten years?

Mr. Cary—About six years, I should judge.

Mr. Humphreys—I cannot agree with you as to the Semet-Solvet Company, because I have a statement before me, issued by the vice president and general manager of the Milwaukee Gaslight Company, Mr. Glass, which is probably the most complete statement of gas prices that has ever been issued in the United States.